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OCB Inter-Agency Working Group on NSC 5506
in accordance with
the outline of work adopted by the
Working Group

5.b Economic Penetration of the Area by the Communist Bloc

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Subject: Economic Penetration of the Area by the Communist Bloc

Problem

In connection with the implementation of NSC 5506, "Future Economic Assistance for Asia," what should the U.S. attitude be with respect to the acceptance by Asian countries of Soviet bloc offers of trade and economic development assistance?

General Considerations

1. The problem of trade as such with the Communist bloc is not dealt with in this paper because an intensive review of economic defense policies and programs is already in process under the direction of the CFEP and NSC. This review is scheduled for completion by June 30, 1955.

2. The economic growth process has barely begun in south and south-east Asia. There is a tremendous upsurge of aspirations and pressures for fundamental changes in the pattern of life which cannot be accommodated within the foreseeable future unless more rapid economic development takes place. However, there is a gap between the indigenous financial resources and technical skills available and those needed for rapid development. Consequently, free governments in the Asian area look to external assistance to aid them in their task of improving their economies.

3. The countries of south and southeast Asia are being assisted in the implementation of their development programs by free western nations which extend assistance through various programs, both bilateral and multilateral. The U.S. is the largest contributor of such external economic assistance. Its programs are predicated on the belief that economic advancement through democratic processes in the area is necessary for the maintenance and improvement of the political, economic and social stability essential to world peace.

4. The U.S. recognizes that the magnitude of the development task in the free Asian area is such that the U.S. could not, within the limits of its present or foreseeable financial and economic resources, finance that development by itself. Instead, reliance must be placed upon the more active mobilization of indigenous resources by the countries themselves, with external assistance serving to complement and supplement those indigenous efforts. U.S. programs, founded on this belief, are designed to lay the basis for long-run economic development. Stress is placed upon the development of technical skills and the installation of basic facilities which are necessary prerequisites for a self-perpetuating indigenous development program.

5. This approach

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5. This approach, while basically sound, is often unspectacular. Its results are cumulative but slow to be discerned. Such an approach foregoes the erection of monuments for their own sake. The Soviet bloc,

A. Under "General Considerations", paragraph 5, add the following clause to the third sentence: "although there have been instances in which U.S.-sponsored projects have yielded spectacular results." to the recipient country.

6. These offers present a problem for the U.S. Government. They are viewed by recipients as one of several means of fulfilling their aspirations for more rapid economic development and the early achievement of an improved standard of living. Recipient governments, although often aware of the motives behind such offers, seem insufficiently concerned about them. The U.S. regards Soviet economic penetration as potentially dangerous for the stability of the area and as a possible threat to the realization of U.S. foreign policy objectives in the Asian area. But we need to be extremely careful in formulating our outward attitudes with respect to proffered Soviet assistance so as to avoid the impression that we begrudge the efforts of others to provide projects which we, for sound economic and policy reasons, have not been inclined or prepared to provide. Moreover, it is entirely possible that in some cases a disclosed attempt by the U.S. to prevent acceptance of a Soviet bloc offer would make its acceptance a political necessity for the Asian country involved.

7. The U.S. Government will wish to give careful attention internally to every Soviet bloc offer of economic development assistance to Asian countries. Each offer will be scrutinized in the light of overall U.S. policies, U.S. policies and programs in the particular country concerned, and the attitude, policies and programs of the country itself. In this manner judgments can be reached as to what, if any, U.S. actions, including, possibly, even an offer of our own, could and should be taken to forestall, thwart or counteract acceptance of the Soviet bloc offer. However, it seems essential, at the outset, for the United States not to place itself in a position of bargaining against the Soviets or appearing ready to meet any request for aid, surrendering on all points of importance to us if such action is necessary, in order to forestall or offset the acceptance of economic assistance from the Soviet bloc. To do so might be tantamount to placing U.S. assistance programs under the direction of the USSR, or, alternatively, under the direction of Asian countries themselves, which could dictate the nature and terms of U.S. assistance by rumormongering that "Moscow has offered to do this for us."

8. It seems

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8. It seems essential, also, for the U.S. to maintain a flexible position, giving us the maximum possible freedom of action to anticipate Soviet economic moves and take appropriate preventive or corrective action. This would indicate an approach dictated by the special and differing circumstances in each area which the Soviet bloc seeks to penetrate. Also indicated is a continuing review of economic development possibilities in Asia in the light of these special and differing circumstances. Quite obviously, certain cases of attempted Soviet penetration will be of greater concern to the U.S. than others. Some cases might prove to be sheer bluff, particularly if grandiose in character, and, if allowed to reach abortive conclusions without official U.S. intervention or even cognizance, might net the Soviets propaganda defeats. In other instances, the Soviets might have every intention to fulfill their promises; in such cases the U.S. might or might not wish to intervene or make some attempt designed to offset the undesirable effects of the Soviet action, depending, again, upon the general situation and the prevailing special circumstances.

9. It would seem that the wisest course of action for the U.S. to follow is to consider attempted Soviet economic penetration in the con-

B. Commerce suggests the following as a new penultimate paragraph under "General Consideration":

"While the above analysis is addressed to Asian problems, the same basic problem of Soviet bloc economic infiltration exists with respect to other areas of the world and differs only in emphasis and degree. The recommendations below are therefore viewed as generally applicable wherever this problem arises."

technical assistance offers.

2. (a) In considering what should be done to prevent, reduce, or mitigate the effects of Soviet bloc penetration, to assume initially that existing U.S. foreign economic policies and assistance programs represent an earlier, broader, far more important initiative than the Soviets could mount on a similar global scale. There might, however, be a number of cases in which the Soviets would be willing and able to make an important and impressive contribution to an Asian country's development which could overshadow U.S. efforts locally.

(b) Since U.S. policies and programs are often unspectacular and slow in coming to fruition, it should be an important part of our position to attempt constantly to make the Asian peoples and governments aware of the existence, nature and purpose of U.S. assistance, lest the latter come to be taken for granted.

(c) To assume

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(c) To assume that existing U.S. policies and programs serve as the general answer or counterweight to Soviet bloc economic penetration moves. Nevertheless, it would be prudent in formulating these policies and programs, particularly as they apply to Asia, to give whatever weight is merited to the desideratum of reducing as far as practicable the scope for successful Soviet bloc penetration.

3.(a) To examine specific Soviet bloc moves toward economic penetration, not only from the economic and political standpoints, but from the military and psychological, as well. The context of such examination should be the sum total of U.S. policy.

C. Under "Suggested Courses of Action" Commerce suggests that paragraph 3 become 3a and that 3b be added as follows:

3(b) "In considering ad hoc situations, among the factors to be considered are the economic soundness of the proposed project, its logical relationship to existing U.S. aid and development policies respecting the particular area, the possibility of using the end product of the enterprise concerned for free world defense purposes, and, conversely, the importance of denying the bloc the opportunity to develop special sources of supply for such products in the free world. Primary consideration would have to be given to the utilization of private capital, domestic and foreign, with recourse to public financing when, upon full exploration of private investment possibilities, such factors as urgency or unattractiveness to private investors leave public financing as the only alternative."

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